DOCUMENT RESUME

ED 181 854 HE 012 283

AUTHOR El-Khawas, Elaine
TITLE Management of Student Aid: A Guide for Presidents.
INSTITUTION American Council on Education, Washington, D.C.
SPONS AGENCY Carnegie Corp. of New York, N.Y.
PUB DATE 79
NOTE 34p.
AVAILABLE FROM Office on Self-Regulation Initiatives, American Council on Education, One Dupont Circle, NW, Washington, DC 20036 ($4.00)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS *Administrator Guides; Administrator Responsibility; Administrator Role; *College Administration; College Role; Compliance (Legal); Educational Finance; *Federal Aid; Federal Regulation; Higher Education; Leadership Responsibility; Loan Repayment; Policy Formation; Presidents; Program Administration; Recordkeeping; *Student Financial Aid; Student Loan Programs
IDENTIFIERS College Presidents; Self Regulation

ABSTRACT

A guide offering a quick review of principles, decisions, and responsibilities in financial aid management has been developed to aid presidents, trustees, and senior administrators of colleges and universities. The handbook stresses the possible implications of aid for enrollment, financial stability, and institutional mission. Topics that are addressed concern: size and significance of student aid, policy planning, use of federal aid, use of institutional funds, management responsibilities, student loans, and legal and regulatory obligations. The effects of federal regulation, the impact of aid on institutional finances and on institutional programs, providing information to students, recordkeeping, cash management, loan collection, proper auditing, and major programs for student financial assistance are covered. The guide is a companion piece to a detailed manual, "Management of Student Aid." (SW)

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Management Of Student Aid

A GUIDE FOR PRESIDENTS

Elaine El-Khawas

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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AMERICAN COUNCIL ON EDUCATION

Management Of Student Aid

A GUIDE FOR PRESIDENTS

Elaine El-Khawas, Director
Office on Self-Regulation Initiatives

AMERICAN COUNCIL ON EDUCATION

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One Dupont Circle, Washington, D.C. 20036

Library of Congress Cataloging in Publication Data
El-Khawas, Elaine H.
Management of Student Aid: A Guide for Presidents.

1. Student aid — United States — Management.
I. Title.
LB2337.4.E43 378.3'0973 79-25347
ISBN 0-8268-1329-1

Orders for additional copies, at $4 each, should be prepaid and addressed to:

Office on Self-Regulation Initiatives
American Council on Education
One Dupont Circle, N.W.
Washington, D.C. 20036

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PREFACE

This Guide has been prepared for use by presidents, trustees, and senior administrators of colleges and universities. It is a companion piece to a detailed manual[1] prepared by the National Association of College and University Business Officers and shares its primary purposes:

- to help senior administrators understand the effects of student aid on their institutions
- to review major policies and control points in the financial aid process and
- to foster widespread adoption of sound management practices for administering aid as an example of self-regulation by colleges and universities

As aid programs have grown, administrators have gained considerable experience and professional expertise in financial aid management. Through the NACUBO manual and this Guide, we seek to call attention to this accumulated wisdom, in the belief that voluntary actions to strengthen campus management practices will result in strong, well-managed programs without the costs associated with excessive federal or state regulation.

The Guide offers a quick review of principles, decisions, and responsibilities in financial aid management. It stresses the possible implications of aid for enrollment, financial stability, and institutional mission. We hope that sections of the Guide—especially the checklist of major questions found on the next page—will offer a basis for initiating top-management reviews of all financial aid programs.

Financial support for the development of the Guide was provided by the Carnegie Corporation of New York. Comments and suggestions were offered by many reviewers and are gratefully acknowledged.

[1]*Management of Student Aid*, 276 pp. Available from NACUBO (One Dupont Circle, Washington, D.C. 20036). Price is $20.00, prepaid. Two copies were mailed to each institution in July 1979.

MAJOR POLICY QUESTIONS ON MANAGEMENT OF FINANCIAL AID: A CHECKLIST

The following questions summarize major points made in the text of the Guide. They are offered to assist administrators in reviewing financial aid management at their institutions.

SIZE AND SIGNIFICANCE OF STUDENT AID:

What is the total student aid budget at present? How much is derived from federal programs?

What have been the major changes in sources of student aid over the last five to ten years?

To what extent are all senior administrators aware of these changes and their implications for college programs and long-term objectives?

POLICY PLANNING:

What is the student aid budget for the next five years? What are the assumptions about enrollment, programs, finances, and external funding on which it is based? Should these assumptions be changed?

How does financial aid affect student recruitment and retention, and therefore student mix at the institution? Have there been indirect effects on academic programs or student services?

What changes in enrollment would the institution like to achieve?

How could financial aid decisions best support those objectives? Are possible effects of financial aid adequately considered when admissions and recruitment plans are made?

What are the implications of aid as a source of institutional revenue? Is the institution too dependent on certain programs?

USE OF FEDERAL AID:

What is the present pattern of use of federal financial assistance? What would be the optimum pattern?

How are decisions made about the amount of funds to request for campus-based federal programs?

Are improved procedures needed for planning the amount of funds to be requested, making contingency plans, or fulfilling reporting and auditing requirements?

What are the institution's costs in administering federal aid?

USE OF INSTITUTIONAL FUNDS:

What amount of institutional funds are used for financial aid? For what purposes are they used?

What are the main sources of institutional aid funds? How stable are they? How well are they coordinated with federal aid funds?

MANAGEMENT RESPONSIBILITIES:

Are good business practices being followed in every step of the aid process: in acquiring, controlling, and disbursing funds; in keeping records and managing cash; in billing and collection procedures?

Are personnel and other resources sufficient to serve students and to manage all financial aid funds properly? What changes in staffing, salaries, and support are needed to assure proper management of projected financial aid operations over the next few years?

Have sound audit and program review procedures been implemented?

Have good administrative relationships been developed among all offices affected by financial aid?

Has the importance of financial aid and its proper administration been communicated adequately throughout the institution?

Are students fully informed about aid programs? Do students receive adequate counseling about terms and obligations of loans?

STUDENT LOANS:

What is the institution's NDSL delinquency rate? What causes this? Is there an effective plan for reducing the delinquency rate or for keeping it to a minimum?

Are changes necessary to improve recordkeeping or debt collection?

LEGAL AND REGULATORY OBLIGATIONS:

Do the governing board, the president, and senior administrators fully understand the commitments made by the president in signing an agreement to participate in federal aid programs?

Are students' rights to privacy, due process, and nondiscrimination well defined and protected by procedural safeguards?

I. Size and Significance of Financial Aid

BILLIONS OF DOLLARS, MILLIONS OF STUDENTS

Over the past decade, student financial aid has grown dramatically in size and significance. In the 1960s student aid was a small part of institutional budgets and was based mainly on academic scholarships. Today financial aid is a large and complex subject, encompassing diverse programs and totalling more than $10 billion annually in expenditures. Federal programs provide most of these funds under regulations that apply to all participating colleges and universities.

The increase has been rapid and substantial. The largest federal program, Basic Educational Opportunity Grants, was introduced in 1972 with just $122 million. Seven years later the allocation for this program was $2.5 billion, over twenty times its initial amount. State agencies have expanded their aid programs, now estimated at more than a billion dollars annually.

IMPACT OF A GROWING AID PROGRAM

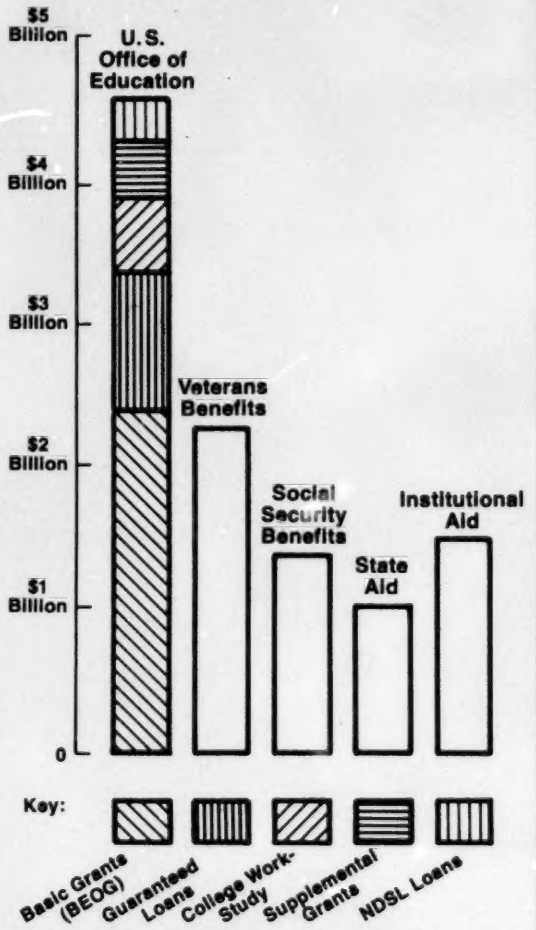
This rapid change has had major consequences for colleges and universities. Financial aid officers have struggled to cope with many more students, vastly increased dollars, changing federal regulations, and a growing complexity in all aspects of student aid. The expanding administrative burden has required:

- development of new administrative procedures
- rapid adjustment to changing demands, funding levels, and staffing needs
- close attention to federal regulations
- growing responsibilities for cash management and loan collection
- greater risk of financial dislocations if funding levels change or enrollment projections are wrong

The pace of events has made it difficult for college administrators to recognize all of the important,

Figure 1

Major Programs of Student Aid 1978-79 (reflects federal appropriations requested for fiscal year 1980)



Source: *Higher Education and National Affairs*, Vol. 28, no. 26, June 29, 1979 (Washington, D.C.: American Council on Education), p. 1.

The financial aid budget at a midwestern college of 1500 students currently totals $3.5 million annually. About 70 percent of students receive some form of aid.

A large state university made 42,343 financial aid awards during 1974-75.

often unanticipated, effects that outside financial aid may have on enrollments, institutional finances, staffing, and demand for additional academic programs and student services. For some institutions:

- Federal funds have become a major source of institutional revenue.
- Financial aid offers have become an increasingly important factor in admissions planning.
- New burdens have been placed on institutional funds to supplement federal aid or to cover administrative costs not met by federal allowances.
- Admissions and enrollment patterns have changed and, in turn, have affected programs and services.
- New administrative relationships have been needed among financial aid, admissions, records, business, and student affairs offices.

In view of such changes, it is necessary that college administrators carefully *assess both the costs and the benefits* of student aid. Direct administrative costs are only partially offset by a federal allowance; remaining costs must be met by the institution, along with such other expenses as program audits. Additional institutional funds may be needed to supplement federal and state aid. And, for each student attracted by aid, instructional costs not met by tuition and fees must be met by general revenues.

Administration of public aid monies has introduced *stringent requirements for proper management and program accountability.* Cash management has become more significant, especially for institutions highly dependent on student aid. Timely requests for funds, accurate accounting, prompt disbursement, and clear reporting can be critical.

Administrators have also learned that student *aid can have a powerful effect—positive or negative—on an institution's mission and objectives.* Most federal and state programs are restricted to need-based aid. Other programs offer aid only to students in certain fields of study. Careful planning is needed to design a student aid program—including use of endowments, gifts, or other institutional funds—that will support, or at least not subvert, the institution's objectives and mission.

Accurate planning on admissions and financial aid awards has become essential to insure an institution's financial health. Close attention must be given to the ratios of offers of admission to acceptance and offers of aid to acceptance. An

institution can quickly become financially overcommitted if acceptance ratios are not carefully monitored and if they differ substantially from earlier estimates.

For students, one critical consequence of recent changes in financial aid has been increased opportunity to attend college or to attend an institution of one's choice; students from families of limited means have especially benefited.

- In 1978-79, nearly 3 million students received Basic Grants (BEOGs), federal need-based grants.
- In 1979-80, 5 million BEOG applicants are expected.

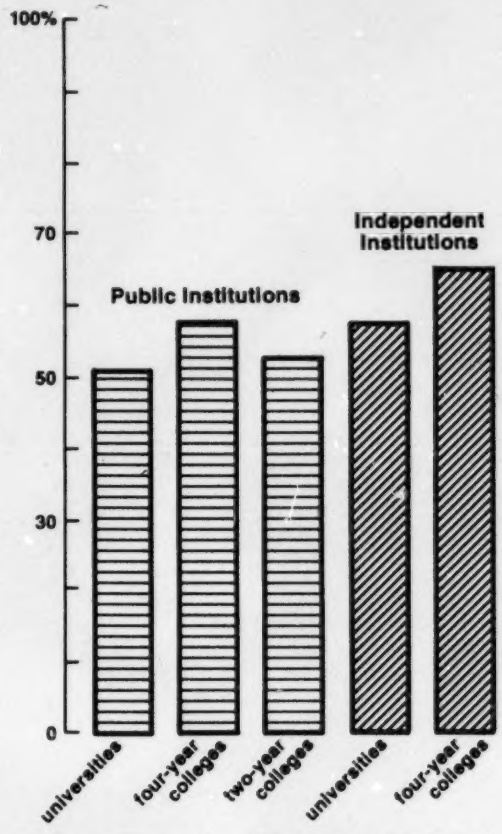
Nationally, about half of all students — and three-quarters of students from low-income families — receive one or more forms of financial aid. For most, receiving aid has also meant:

- confusing terms, instructions, and application procedures
- heightened awareness of college costs and expenditures, of "expected" family contributions, financial need and, often, "unmet" need
- frequent contact with the financial aid office
- new financial consequences of withdrawing from college study, whether temporarily or indefinitely
- loan obligations that begin six to twelve months after leaving college

As costs have increased, financial aid has become critical for many students, often overshadowing academic concerns. Many students now have more contact with the financial aid office — and over a longer period of time — than with any other office of the institution.

Figure 2

Percent of Students Receiving Financial Aid (Full-time undergraduate students who received any kind of financial aid 1976-77)



Source: I. L. Gomberg and F. J. Atelsek, "The Institutional Share of Undergraduate Financial Assistance, 1976-77," *Higher Education Panel Reports*, No. 42 (Washington, D.C.: American Council on Education, May 1979). p. 24.

II. Presidential Responsibilities for Financial Aid

The effective management of student aid requires careful oversight and review by an institution's chief executive officer, working in close cooperation with the governing board and senior administrators. The chief executive officer should take a broad perspective, working to integrate the use of financial aid with the institution's overall operations, policies, and objectives. The president's responsibilities might be summarized as follows:

- to remain fully informed about the role and importance of financial aid at the institution
- to support development of a coherent institutional philosophy and plan that ensures that the use of aid is compatible with the institution's mission and long-term objectives
- to support effective coordination, monitoring, and program controls for financial aid; and
- to see that public aid funds are scrupulously managed and that all legal and regulatory requirements are properly met.

For many institutions integration of student financial aid is best accomplished by development of a policy stating the institution's philosophy and outlining a plan for implementation. The plan should detail administrative procedures for awarding aid, and should clarify working relationships between financial aid administrators and those responsible for admissions, program planning, and institutional finances.

A wide range of administrators needs to work together to develop and implement an aid policy. The president should take an active part in establishing the institution's philosophy and plan regarding aid; many other administrators are affected by aid decisions (figure 6 below) and should also be aware of the institution's policies and purposes in administering financial aid. The plan

Who is regularly provided information on patterns of aid use?

Data on the following items might be routinely reported to the president:

- **Number and percentage of students who receive aid**
  - **— for entering students**
  - **— for all students enrolled**
- **Average amount of aid students receive**
  - **— in grants**
  - **— in loans**
  - **— in work-study**
- **For a typical student**
  - **— percentage of need that is being met**
  - **— percentage of aid that is**
    - **a grant**
    - **a loan**
    - **work-study**
- **For the institution as a whole**
  - **— total yearly financial aid expenditures**
  - **— financial aid expenditures as a percentage of Educational and General Expenditures.**

For your institution:

Who sets policy for awarding aid?

Who decides how much federal funds will be requested for campus-based programs?

Who is responsible for monitoring federal and state regulations, for seeing that all regulations are followed, and that reports are filed on time?

How clearly have responsibilities for financial aid been delegated and communicated throughout the institution?

To whom does the financial aid office report? Should this procedure be changed?

Figure 3

Legal Considerations In Administering Student Aid: A Summary

Privacy Rights. The Family Educational Rights and Privacy Act of 1974, also known as the Buckley Amendment, is a federal law providing for confidentiality of student records. This act requires:

- that students have rights of access to their education record;
- that information from the student's record not be disclosed to third parties;
- that disclosure for legitimate purposes be made, but with a record kept of the persons requesting the information and their purposes for obtaining the information.

Regarding financial aid, student access does not include financial information submitted by parents. Information may be disclosed to third parties as necessary for determining student eligibility for aid, determining the amount of aid, conditions to be imposed, and enforcing the terms or conditions of the aid.

Due Process. While an institution has the duty of complying with federal requirements concerning student eligibility for aid, such compliance must be accomplished with appropriate regard for the due process rights of students. Federal statutes currently disqualify from receiving federal aid any persons using force or seizing property of an institution or otherwise preventing college personnel from engaging in their duties.

In 1976, a U.S. District Court (Corr v. Mattheis, 407 F.S. app. 847 (U.S.D.C. R.I.)) held that, before the aid could be terminated because of student protests under the applicable statute, student protestors had a right to prior notice of the proposed action and an opportunity to contest the applicability of the statute.

Discrimination. All federal programs must be administered without discrimination on the basis of sex, race, age, heritage, or handicap. An institution must file an assurance of its compliance with the civil rights requirements of Title IX of the 1972 Education Amendments (with exemption of single-sex undergraduate institutions) and Title VI of the 1964 Civil Rights Act, as well as Section 504 of the Rehabilitation Act of 1973. These laws are binding on the institution (at least insofar as it continues to receive federal funds), even though they are not enforced through the U.S. Office of Education.

should be reviewed and approved by the institution's governing board and communicated throughout the institution.

Periodic review sessions and program reporting should be required to assist the president in maintaining proper oversight of the program. Reviews would also help the president assure that effective management controls are maintained, that external requirements are being met, and that the impact of financial aid on institutional objectives is being adequately monitored.

LEGAL AND REGULATORY OBLIGATIONS

If an institution receives federal aid for its students (almost all colleges and universities do), its financial aid program must comply with federal statutes and with regulations promulgated under those statutes.

An Agreement, signed by or on behalf of the U.S. Commissioner of Education and the chief executive officer of each institution, forms the basis of the institution's obligations to the federal government regarding Title IV programs. This agreement sets out responsibilities for the maintenance and retention of records, the submission of reports, and the determination of financial need through systematic methods. It also sets out eligibility criteria for students who receive assistance.

The U.S. Commissioner of Education may suspend, limit, or terminate the agreement, after notice and the opportunity for a hearing, for failure to comply with the provisions of the agreement, or if any assurances or representations made in connection with this agreement or in any application for funds are found to be incomplete or incorrect.

Additional requirements (apart from those governing federal financial aid) arise in other aspects of aid administration. Arrangements for student employment, for instance, must be made in light of labor laws covering fringe benefits. Constitutional and statutory requirements regarding nondiscrimination and students' rights to privacy and due process must also be followed. Applicability to financial aid administration is summarized in figure 3.

Legal questions can arise in financial aid administration either in transactions with governmental agencies or with students and parents. Loan programs, in particular, can raise legal difficulties related to contacts with borrowers and collection procedures. Legal advice should be obtained in developing good procedures that protect the institution and ensure proper management.

RECOGNIZING THE EFFECTS OF FEDERAL REGULATION

Expanded student aid programs have brought an increased federal presence to most academic institutions. Campus officials have had to become familiar with a new vocabulary of federal terms and requirements, pay close attention to the *Federal Register*, and be in frequent contact with federal officials. Higher education operations have had to be adjusted to meet federal requirements and schedules and to keep up with frequent changes in those requirements. Discomforting federal pronouncements about abuses and failings in campus administration of student aid have also increased.

The past several years have been a trial period in an evolving federal aid policy. Unfortunately, however, agency confusion, program changes, and inconsistent expectations have caused problems for campus administrators. The transition problems may ease, but not the closer ties between academic institutions and federal agencies. Federal programs now rely heavily on colleges and universities to administer aid. This introduces inevitable expectations for efficient campus management of aid funds. Currently, institutions are facing mandates to reduce their default rates on NSDL loans and to maintain accurate cash accounting systems for loan funds. The specific demands may change, but the general responsibility —to assure proper management and accountability for use of public aid monies — will remain.

Federal regulations governing student aid are numerous and detailed. They spell out correct procedures, deadlines to be met, and eligibility restrictions for students. Despite some problems, most of the rules are necessary for institutional participation in the massive federal aid program.

What must be recognized, in addition, is that rules designed for aid administration can have unintended, but important, ramifications for other institutional actions. Such indirect effects of aid regulations can be adjusted once they are recognized. However, where serious dislocations occur that are not easily remedied, the president and other senior administrators should seek a solution to the problem. Discussion with appropriate federal officials may suggest reasonable alternatives; it may be necessary, instead, to seek changes in the regulations by bringing the problems to the attention of legislators.

Figure 4

Key Terms in Federal Financial Aid

ADMINISTRATIVE ALLOWANCE
A portion of campus-based federal funds (up until 1979, four percent) that an institution may use for offsetting administrative expenses.

CAMPUS-BASED PROGRAMS
Three federal aid programs administered directly by institutions: Supplemental Educational Opportunity Grant (SEOG), College Work-Study program (CWS), and National Direct Student Loan program (NDSL).

DUE DILIGENCE
The attention and care legally expected or required in the collection of a loan, characterized by steady, earnest, and energetic application and effort.

EXPECTED FAMILY CONTRIBUTION
The amount of funds a student or family is reasonably expected to make available to meet anticipated educational costs, calculated as part of the need-analysis process.

FISCAL OPERATIONS REPORT
Report, containing data for a designated fiscal year, submitted to the U.S. Office of Education by each postsecondary institution participating in federal aid programs.

NEED ANALYSIS
The process of assessing a family's ability to meet the cost of education.

PACKAGE
A financial aid award made up of several kinds of aid (grant, work, loan).

How much has use of BEOGs increased this fall?

Are applicants expected to apply for BEOGs?

Many colleges and universities require all students seeking aid to complete an application for federal Basic Grant funds (BEOGs).

Many institutions also require students to apply for state aid.

III. Importance of a Financial Aid Policy

A comprehensive institutional policy on student aid can be critical to the success of a program. A student aid program must administer aid funds properly. However, it should also support the institution's mission and long-term objectives and be consistent with the need for financial viability. To date, many colleges and universities have not been able to plan and monitor their financial aid operations adequately. Attention has been directed to the more immediate demands of handling a rapidly increasing amount of aid funds. Decisions have often been based on ad hoc reactions to specific situations rather than on any general set of guidelines.

Administrators must recognize that aid can have important and complex implications for admissions and enrollment planning and can have critical effect on financial stability, particularly if student aid represents a major source of institutional revenues. A well-defined policy, outlining the institution's specific aid objectives, provides a comprehensive guide for developing procedures and helps ensure that financial aid will be properly integrated into the institution's general operations.

DEVELOPING AN AID POLICY

An institution's president and senior administrative officers should offer leadership in establishing the philosophy and plan by which student aid is to be administered. Campus officials, including financial aid and business officers but many other administrators as well, should participate in developing and implementing the policy. (See figure 6 for one approach to institutional planning.) Such wide participation helps ensure that all pertinent views are represented and that the resulting policy is communicated to all affected administrative offices. The planning process should define the responsibilities of all offices to realize the most effective use of student aid.

Drafting of the plan should be based on a detailed assessment of how financial aid practices currently affect the institution. Considerations include:

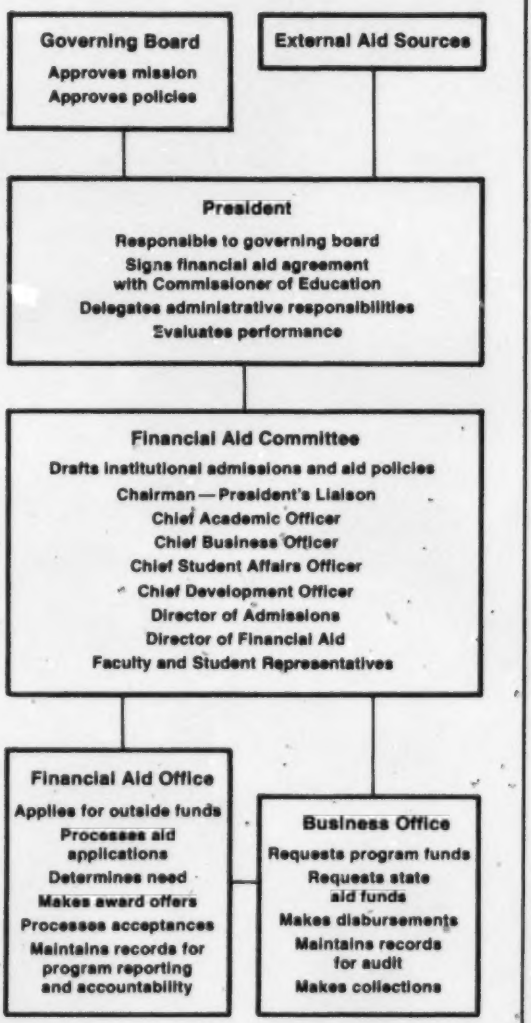
Figure 5

A Potential Plan for the President

1. **Establish a financial aid committee.** To be charged with developing a financial aid statement for the institution, based on research needed to develop a financial aid plan. Once approved, the plan would be incorporated into the institution's planning process. The committee would also be responsible for determining the management roles of the financial aid office and the business office.
2. **The Committee should identify:** the *types, sources, uses,* and *amount* of all financial aid monies at the institution.
3. **The Committee should assess** — and develop guidelines regarding — **the effects of different aid programs on the institution's programmatic and financial health, including its effects on:**
   - Student body mix
   - Administrative control
   - Dependence on federal money
   - Programs and student achievements
4. **The Committee should develop recommendations for a financial aid multiyear plan to complement the rest of the planning process.**
5. **The Committee should develop an administrative-responsibility chart for the financial aid office and the business office.**

Figure 6

Institutional Model of Participation in Student Aid Planning



- impact of aid on admissions; on student mix; and on enrollment, completion, and retention patterns
- implications of aid as a factor in costs, revenue sources, and financial planning
- institutional objectives for enrollment and for the academic program
- demographic and other elements affecting admissions and student aid needs
- purposes and restrictions of each type of external funds
- rationale for institutional contributions to student aid
- administrative costs, responsibilities, and resource needs in student aid management

The policy statement that emerges from this assessment should offer a comprehensive view of how the financial aid program would operate to support institutional objectives. The statement would, in turn, form the basis for developing policies on specific details of aid administration, including types and amounts of aid to be sought, use of operating revenue devoted to financial aid, criteria for packaging and distribution of financial aid, and links between aid and the setting of tuition rates. Unless guided by an overall plan, decisions on such matters can easily subvert broader institutional objectives.

The plan should offer a basis for continuing review and monitoring of the program. A data-analysis capability should be established to monitor the status of each type of aid being used, the effects of any changes that occur, and their implications for program objectives. Such monitoring could be designed to:

- report data on the current pattern of expenditures
- assess the impact of program operations on enrollment and institutional finances
- project the likely effects of changes in institutional policy or of changes in external matters (e.g., in governmental policy, in sources or amounts of financial aid)

The overall policy should be reviewed periodically to update goals or to consider unresolved policy questions. Adjustments may be needed to meet changes in external circumstances, especially changes in the pool of applicants or in the amounts of federal and state aid. The Middle Income Student Assistance Act, for example, is having significant impact on aid programs at most institutions.

THE IMPACT OF AID ON INSTITUTIONAL FINANCES

An important task in developing an institutional policy is to assess both the costs and benefits to the institution of an increasing amount of external aid. The benefits may seem obvious: federal and state funds are a substantial source of revenue for most institutions and significantly reduce the financial burden of college attendance for many students.

The financial importance to the institution, however, depends on several factors, including the total cost of education (and how much of the cost is covered by tuition and fees), the family-income distribution of the student body, the degree that the institution is under- or over-enrolled, and the surplus or deficit being incurred. Student aid may appear to be a useful tool for recruitment, for example, making it easier for a student to undertake postsecondary studies. Yet, it is also true that additional funds are needed for each new student attracted by financial aid to cover instructional costs that are not met by tuition and fees.

Similarly, many institutions provide their own funds for financial aid in order to cover "unmet" need of students after external funds are used. For most institutions, federal allowances do not cover actual administrative costs incurred. Additional institutional funds may be needed for efficient operations. If these and other potential costs are not carefully considered, student financial aid can be a liability rather than an asset.

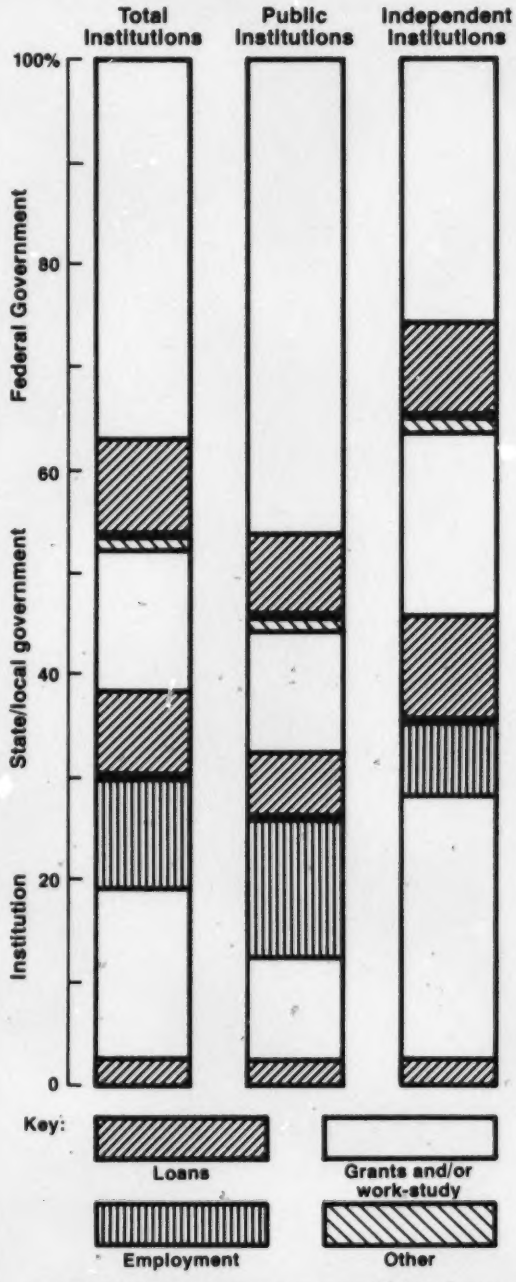
Extensive use of federal dollars has introduced a number of management concerns that must be considered in developing an institutional policy on aid. Such concerns include:

- the need to cover unsupported administrative costs
- financial problems arising when aid allocations differ substantially from the amount requested or when actual utilization differs from estimates
- dangers of too much reliance on external aid
- new constraints on tuition setting
- coping with indirect effects of aid on financial planning
- increased pressure to use institutional funds for the aid program

Because most federal and state programs offer need-based aid and restrict the amount of an award, an institution's own funds become an important adjunct to external aid. Ideally, institutional contributions would come from endow-

Figure 7

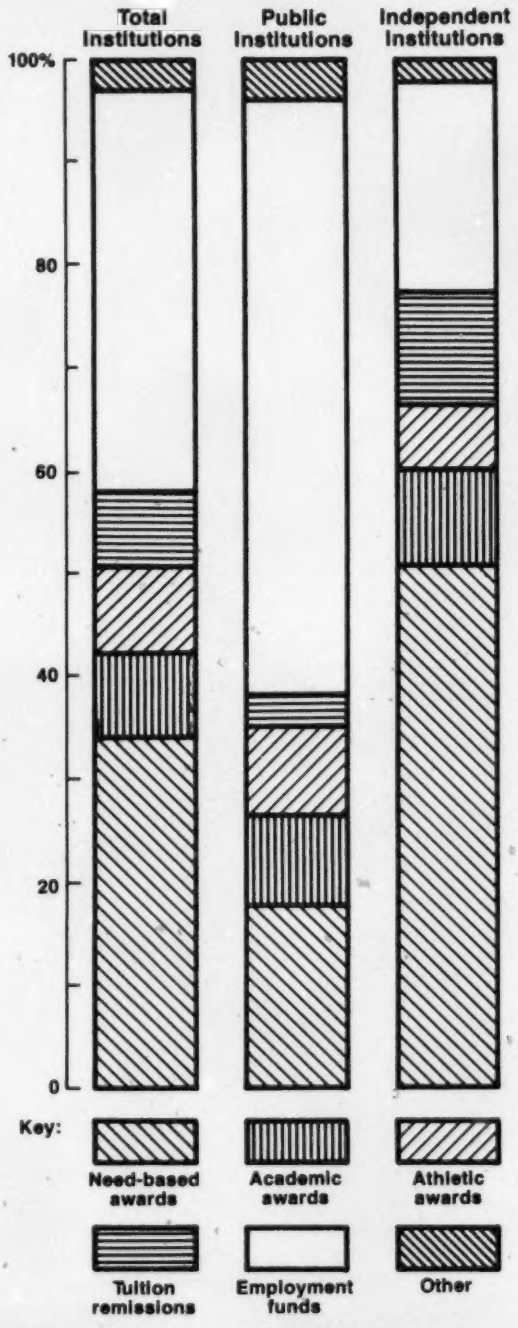
Sources of Undergraduate Student Aid 1976-1977



Source: I. L. Gomberg and F. J. Atelsek, "The Institutional Share of Undergraduate Financial Assistance, 1976-77," *Higher Education Panel Reports*, No. 42 (Washington, D.C.: American Council on Education, May 1979), pg. 17.

Figure 8

Forms of Institutionally Funded Undergraduate Student Aid, 1976-77 (Percentages Distribution of Aid Dollars)



Source: Gomberg and Atelsek, pg. 7

ments and gifts, with minimal or no dependence on other sources of revenue. The more likely prospect, however, particularly in view of current tuition levels and student need at all institutions, is that other institutional funds will be used as well.

Administrators must be fully aware of the financial implications of such use of institutional money. An increase in the use of institutional funds for financial aid, for instance, normally involves a multi-year commitment if students are to receive similar levels of aid for each year of study. In developing a financial aid policy, administrators may wish to establish guidelines for use of this revenue and call for periodic reviews of how such use fits the institution's general purposes.

THE IMPACT OF AID ON INSTITUTIONAL PROGRAMS

It is also important to assess the influence of student aid on an institution's academic programs and student services. The aid program can assist the institution in achieving certain objectives, for example, increased access to the institution, diversity among students, or attraction of students interested in particular fields of study. Conversely, unless administrators recognize how such objectives can be affected by decisions about the types of aid and the amounts to be used from each source, aid patterns can develop that adversely affect the institution's purposes and mission.

In developing a student aid policy and monitoring its effects administrators should seek a careful assessment of the actual and projected effects of aid policies on:

- enrollment, retention, and attrition
- admissions and recruitment activities
- participation in institutional programs and student services
- progress toward long-term institutional objectives

Student aid can have an immediate and visible impact on enrollment. Emphasis on certain types of aid over others can affect the total number and characteristics of students enrolling as well as their distribution among program offerings. Aid decisions may also have unexpected but important effects on student retention and completion patterns. The use of aid might alter the mix between freshmen and upperclass students, between resident and commuter students, and between full-time and part-time students. These and other enrollment influences can, in turn, have significant effects on student demands for academic programs and services. Cumulatively,

they could affect long-term institutional objectives.

The effects of aid on academic programs and student services typically result from changing patterns of student enrollment. Effects of present policies may become noticeable only after a period of years. Decisions about the use of work-study programs, for example, may affect student participation in off-campus programs or use of support services. Students may be less prone to take a semester or a year off from their studies because loan repayments become due. Heavy reliance on certain types of aid may result in significant changes in the type of student enrolling, with consequent impact on curriculum planning (e.g., more freshman-level or remedial courses; greater demand in fields where aid exists; courses offered at different hours and locations). Many students are employed under work-study programs, with much variation in the degree to which their tasks contribute to their educational or vocational development.

DIFFERENT TYPES OF AID

A financial aid office may administer as many as a dozen different externally funded programs of student aid, in addition to several types of institutionally funded student aid. This diversity of aid sources, each with specific requirements and stipulations, underscores the need for a cohesive institutional policy regarding financial aid. College administrators need to develop such a policy with full awareness of the major features of each type of aid, including current and potential uses and the pitfalls they may pose for the institution. The optimum use of each source should be determined in accordance with the unique characteristics of each institution and its students.

Figure 9

Major Programs for Student Financial Assistance

FEDERAL AID

BASIC EDUCATIONAL OPPORTUNITY GRANTS (BEOGs)
Need-based. Students apply directly. Institution makes award.

SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS (SEOGs)
For exceptional need. Campus-administered.

COLLEGE WORK-STUDY PROGRAM (CWS)
Matching funds, federal and institution. Needed-based. Campus-administered.

NATIONAL DIRECT STUDENT LOANS (NDSL)
Need-based. Campus-administered.

GUARANTEED STUDENT LOANS (GSL)

FEDERALLY INSURED STUDENT LOANS (FISL)
(Also known as Higher Education Loan Program — HELP). Student applies to lender.

STATE STUDENT INCENTIVE GRANTS (SSIG)
Need-based. Matching funds, federal and state.

NURSING STUDENT LOANS (NSS and NSL)

HEALTH PROFESSIONS LOAN PROGRAM
Need-based. Matching funds, federal and institution.

HEALTH EDUCATION ASSISTANCE LOAN PROGRAM (HEAL)
Student applies to lender.

BUREAU OF INDIAN AFFAIRS (BIA) GRANTS
Student applies to BIA.

LAW ENFORCEMENT EDUCATION PROGRAM (LEEP)
Loans and grants. Institution applies.

SOCIAL SECURITY BENEFITS
Awarded directly to students.

VETERANS ADMINISTRATION BENEFITS
Awarded directly to veterans.

STATE OR LOCAL AID

GRANTS
Need-based. Usually awarded directly to students. Also includes matching funds for federal programs (particularly NDSL and CWS).

LOANS
In some states institutions apply for student loan funds.

INSTITUTIONAL AID

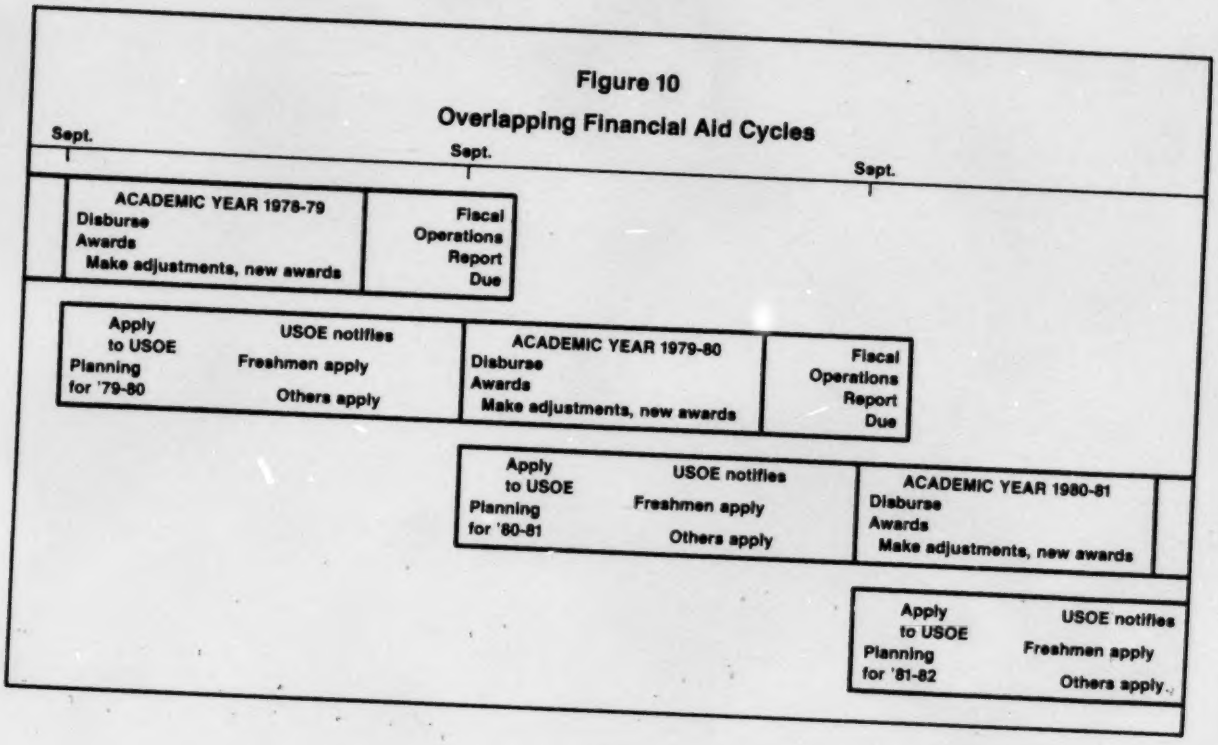
NEED BASED AWARDS, ACADEMIC AWARDS, and ATHLETIC AWARDS
Derived from both restricted and unrestricted funds.

TUITION REMISSIONS
For faculty, staff, and dependents

STUDENT EMPLOYMENT
Wages, matching funds.

Figure 10

Overlapping Financial Aid Cycles



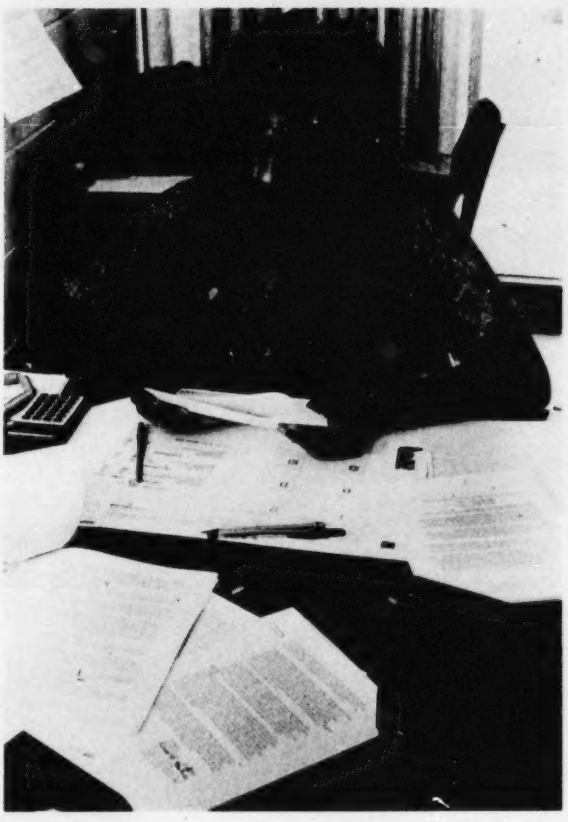
IV. Implementing an Aid Policy

In order for an institution to achieve its financial aid objectives, the president must see that effective management techniques and controls are developed in all departments concerned with student aid. Such a goal requires that the financial aid office be managed efficiently and that well-defined working relationships exist among the financial aid office, the business office, the admissions office, the registrar, and all departments hiring work-study students.

In this section, key elements of financial aid management are reviewed briefly including:

- the financial aid cycle
- applying for federal aid
- processing student applications
- providing information to students
- recordkeeping
- cash management
- loan collection
- auditing

If an aid program is to be successful, sound policy decisions and management controls are necessary in each of these areas. Federal requirements are, inevitably, an important consideration. Decisions about program mangement must combine the regulatory and the institutional perspectives: all fiduciary and regulatory obligations must be fulfilled, but aid funds should be sought and obligations agreed upon only if they do not undermine the institution's objectives and financial health.



UNCERTAINTIES IN THE FINANCIAL AID CYCLE

Managing the typical cycle of financial aid poses problems for an institution. The span of financial aid activity for each academic year typically extends to at least twenty months, allowing for advance preparations as well as final reports. One year's actions and recordkeeping necessarily overlap with the next.

What is the present size of the administrative staff for financial aid? Should this be increased?

How many students receive aid per full-time staff member? What is the average at comparable institutions?

What provision does your institution make for training and development of financial aid staff?

Other problems arise because processing requirements of federal agencies do not coincide with academic calendars. Federal funds for campus-based programs are requested a year in advance but final word on actual funds granted is generally not received until five or six months before the fall term begins. As a result, the financial aid office must process aid applications for freshmen and, sometimes, for continuing students before knowing the actual amount of federal funds that will be received.

Differences in the timing of aid applications between freshmen and upperclass students also cause problems. Aid applications for freshmen are usually considered part of the admissions cycle and are completed by March or April. Aid applications for upperclass students take place in late spring or early summer. Depending on institutional policy, the objective might be to set a similar percentage of aid for continuing as well as for entering students. Yet it is difficult to allocate funds fairly among students without knowing how many freshmen will accept aid offers, how many continuing students will seek aid, or how much federal money will be allocated.

ACQUISITION OF FEDERAL FUNDS

Each institution submits a yearly application for funds to administer three major Title IV federal aid programs:

- Supplemental Educational Opportunity Grant (SEOG)
- National Direct Student Loan (NDSL)
- College Work-Study (CWS)

These programs are campus-based, that is, administered by colleges and universities directly to their own students. One of the most important responsibilities of the financial aid office is to apply for funds to administer these programs.

While it may generally be true that an institution should apply for the most funding it can legitimately justify, each institution must make a careful determination about the amount of funds to request. The following questions should be considered:

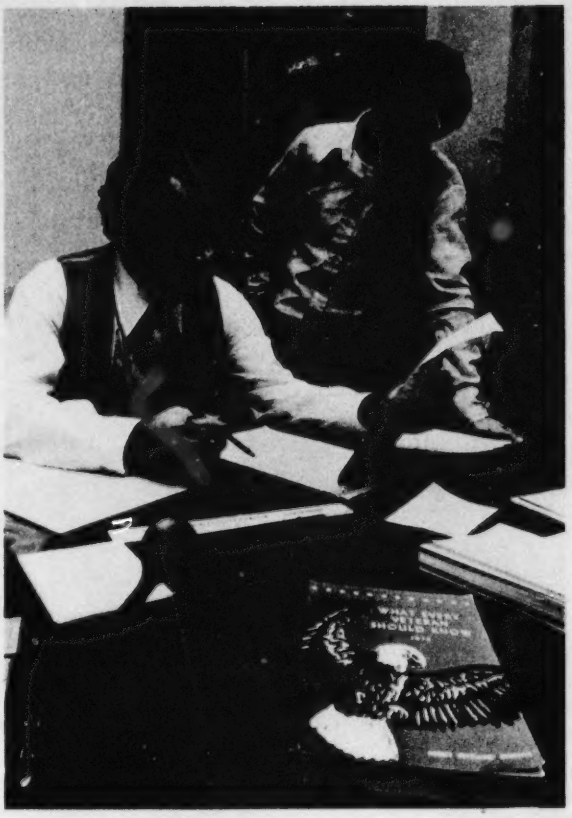
- Are there any institutional policies or philosophies that would interfere with the institution's ability to fulfill requirements governing the programs?
- Can the institution use the entire amount of funds requested?
- Will staff, financial, and other resources at the institution be sufficient to properly manage these funds?

- Is the institution heavily dependent on this source of student aid? If so, is there a contingency plan that could be implemented if expected funding levels are significantly reduced?
- What is the optimum mix of funds from these three programs (considering the types and anticipated amount of aid offered, possibility of transferring funds between programs, and are other financial aid resources available to the institution)?

The institution's application, made a year in advance, requests a certain amount of aid based on prior use of program funds. USOE notifies the institution about the amount of funds to be granted about six months in advance of the academic year. The allocation generally has been less than requested.

Overcommitment of funds is a major risk. Federal allocations may be far below expectations. Further, the initial request must be made on the basis of informed judgment and information available at the time; actual experience may reveal a very different pattern of aid use, including a higher than expected number of students enrolling and a higher than expected number receiving aid. Waiting lists, phasing of aid offers, and frequent monitoring of programs can reduce, but not entirely resolve, such problems.

Underexpenditure of requested funds can also cause significant problems. Federal programs base future allocations in part on utilization of funds during prior years. Other outside programs and endowment or gift funds may also have an anticipated expenditure level. It takes considerable skill and judgment to effectively monitor spending patterns to prevent excessive overexpenditures or underexpenditures. The task is further complicated because a conservative estimate of funds required may mean that fewer needy students can receive aid or that, for each aided student, a smaller percentage of need can be met.



PROCESSING STUDENT APPLICATIONS

For most institutions, financial aid resources are not sufficient to meet all student need. To ensure that available resources benefit the largest possible number of students, processing of applications should be as accurate and fair as possible. Standardized national procedures assist college administrators with most aspects of this process; other aspects are subject to proper college management.

How well coordinated are institutional procedures for admissions and for financial aid?

Does an applicant receive information on both acceptance and aid offered before having to make a commitment about attending?

Information that might be routinely shared between admissions and financial aid offices:

- **number of applicants requesting aid this year; in prior years**
- **number of students eligible for BEOG grants; number of those eligible who receive BEOGs**
- **percentage of student need that is being met currently for**
  — independent students
  — dependent students

The student's financial need is calculated by a complex process that takes into account expected student expenses at the institution as well as the expected family contribution. The financial aid office then seeks to meet that financial need through a "package" combining a grant, loan, and/or student employment.

Typical student expense budgets must be developed by the institution and decisions must be made about how aid will be "packaged." Institutions must also implement effective techniques to prevent or remedy overawards to students and to check that students receiving financial aid are making satisfactory academic progress, a condition of federal financial aid.

Packaging Methods: Financial aid packaging, combining funds available from several sources (including grants, loans, and employment), is a central feature in effective administration of student aid. Decisions about how to package aid — including when and how to include institutional funds — affect how much aid is offered a student, how many students can be aided, and whether institutional funds are used wisely. An effective packaging policy facilitates good resource management and helps spread available dollars among the largest number of eligible students. A written strategy should be developed, with full consideration of institutional goals, costs, and consequences.

A key question is how institutional funds can best be combined with federal and state funds. Another major question, given the fact that available aid usually falls short of what is needed, is how to treat the gap between student need and the amount of aid that is available; whether to meet a certain percentage of need for all students or to vary the percentage according to such criteria as the student's academic rank, year of study, level of need, etc. Special program requirements must also be incorporated into the plan. The SEOG program, for example, has a "last resort" provision stipulating that these funds be considered only at the final stage of packaging.

Developing student-expense budgets: Federal regulations define student financial need as the amount of total college expenses that is not met by the expected family contribution. Total expenses must be calculated annually on the basis of realistic and up-to-date budgets for several categories of students (e.g., those in residence halls, full-time day students, part-time students). Reliable information on actual costs must be obtained, possibly from surveys of enrolled students, requests for information on the aid application, and use of state or national cost-of-living statistics. The association of financial aid administrators has published a manual on preparing student expense

budgets (*A Handbook for Use in the Preparation of Student Expense Budgets*, 1977).

Determining Satisfactory Progress: The financial-aid officer is responsible for assuring that a student aid recipient is making satisfactory academic progress. Policies on this matter should be developed with the assistance of faculty, administrative officers, and students, with the approval of the president or governing board. Considerations include progress made toward the student's degree objective (number of credits in relation to number of terms attended) and student grade averages. If minimum standards are not met, the student is no longer eligible for financial aid.

Overawards: Good management practices would keep overawards of financial aid to a minimum. Effective student counseling, record-keeping, and verification techniques help to avoid most problems but, on occasion, the financial aid office must notify a student that too much aid has been awarded and must seek an adjustment. This may occur, for example, when students change their course load after registration. If identified early, adjustments can be effected before disbursements are made. Otherwise, procedures to recover the amount of overaward must include written notification to the student and establishment of a billing schedule.

PROVIDING INFORMATION TO STUDENTS

Over the last few years, financial aid officers have been hard-pressed to maintain good information and counseling services. In an era of rapidly expanding aid programs, students have sometimes been given inaccurate, incomplete, or misleading information about aid or have had to wait in long lines to get advice about aid applications or records. Since 1976 federal aid programs have carried specific requirements about information to be made available to students.

A well-designed information program benefits students, the institution, and the financial-aid office. Students should be able to learn about all aid opportunities and obligations to which they are entitled. Effective communication with students also contributes to good aid management: to ensure adequate control over the financial aid process, many facts need to be conveyed and recorded to protect both the student and the institution.

An effective program offers more than written disclosure of required procedures. Many institutions have prepared informative brochures that help students understand how requirements fit their own circumstances. Letters and fact sheets have provided valuable supplements to general

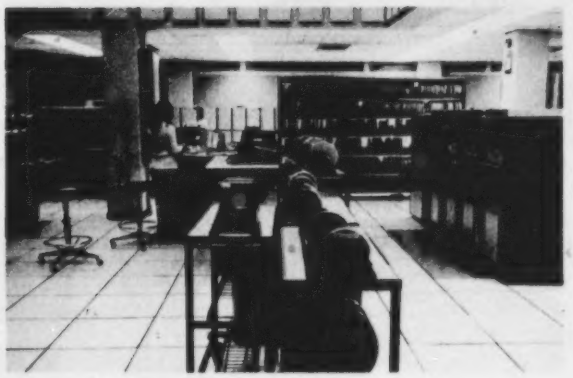


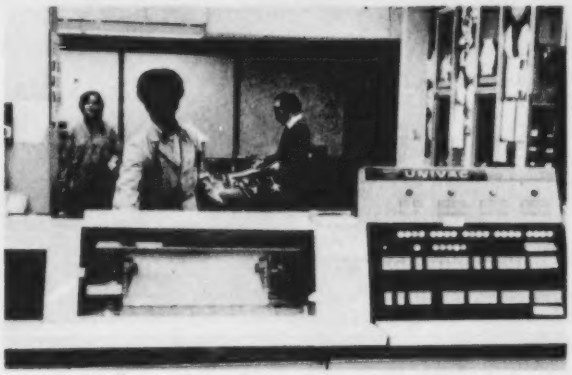
Figure 11

STUDENT CONSUMER INFORMATION REQUIREMENTS

The Education Amendments of 1976 require institutions participating in federal programs of student financial assistance to provide students and applicants with certain items of consumer information. The Amendments also require that the administrative reimbursement available for campus-based programs first be used to fulfill student consumer information requirements.

The topics covered by those requirements include:

- **cost of attendance**
- **refund policy**
- **list of financial aid programs available**
- **method by which aid is distributed**
- **application process**
- **criteria for making awards**
- **rights and responsibilities of students receiving financial aid**
- **description of academic programs, physical facilities, faculty, and other resources**
- **data on student retention**
- **person(s) designated to provide additional information**



publications. Counseling can be especially useful for entering students (freshmen, transfer students, etc.). Peer counselors—other students who have been briefed on financial aid matters—have been effective in describing aid to both first-year and continuing students.

Special care must be taken to inform students who take loans of their obligations and repayment responsibilities. Rights and responsibilities should be reviewed when an initial loan is made, when increases or other adjustments are agreed upon, and in an exit interview when students leave the institution. A copy of each signed statement about rights and responsibilities should be kept in the student's file. Another copy might be provided to the student.

RECORDKEEPING

As part of effective financial aid management, each institution has the responsibility to develop and maintain accurate records. The records should be designed to provide data for monitoring, reporting, and auditing purposes. Sound recordkeeping techniques provide data required by federal aid programs and make it easier to prepare applications for funds and periodic reports. Institutions must retain records on federally funded programs for at least five years or until all questions raised by required audits have been resolved.

Recordkeeping responsibilities of the business office call for accounting for cash receipts, disbursements, and expenditures. Recordkeeping requirements of the financial aid office are more detailed. They include a multi-step process of gathering information from individual students, making an award offer, recording acceptances, expenditures, and adjustments, and scheduling student-loan obligations and repayments.

Effective recordkeeping controls include:

- chart of accounts, showing each type of financial aid
- detailed documentation (handbooks, manuals) of major activities and procedures
- a system of student master records or other files for individual students
- proper processing and maintenance of all documents — aid applications, reports, contracts, offers of aid, letters of acceptance, promissory notes, and adjustments

- logical and convenient filing systems for all records of current and former students
- control systems for assuring that records removed from files are properly returned
- procedures to ensure security of records to comply with federal requirements
- an information system that can quickly and accurately transmit information on disbursements and expenditures and provide a variety of reporting data
- clear lines of communication among campus offices involved in the financial aid process
- monitoring of program regulations, including institutional, governmental, and other external agency policies and regulations

Questions about the use of institutional funds for financial aid:

What is the amount of institutional aid now being disbursed? Is this more or less than planned?

How wise is the current policy on use of institutional aid? At what point is institutional aid introduced when assembling an aid package? Why?

CASH MANAGEMENT

A sound cash management policy permits an institution to administer its financial aid program with proper records of cash receipts and expenditures and leaves a minimum amount of idle funds. Such a policy is actually a tradeoff between the *program objective* of putting aid funds in the hands of the student as quickly as possible and the *fiscal objective* of not advancing institutional funds too early. Cost and risk must be balanced to arrive at a sound policy. A good cash management policy will address the following questions:

- Who should be billed? When?
- What procedures are to be used in case of delay in receipt of funds?
- How are receipts to be deposited?
- What are disbursement restrictions?

A cash management policy should also establish a timely, thorough, and accurate reporting schedule for HEW's Departmental Federal Assistance Financing System (DFAFS). DFAFS requires cash-flow reports on each federal aid source — showing amount expended, advanced to institutional accounts, and remaining cash balances. DFAFS reports must be submitted quarterly or, for institutions that handle large amounts of money, on a monthly basis. If the report is not submitted within thirty-five days of the required date, DFAFS discontinues all cash advances to the institution until the report is submitted.

Approximate Monthly Payment Chart

This chart gives an idea of the *monthly* payment required to repay a student loan in ten years.

Loan Size	Approximate Payment @ 3%	@ 7%
$1500	15	18
2100	20	25
2600	25	30
3100	30	36
3600	35	42
4100	40	48
4600	45	54
5100	50	59
5600	55	65
6200	60	72
6700	65	78
7200	70	84
7700	75	90
8200	80	95
8800	85	102
9300	90	108
9800	95	114

Source: *Management of Student Aid*, 1979 (Washington, D.C.: National Association of College and University Business Officers), p. 217.

LOAN COLLECTION

Failure to properly conduct any part of the billing and collection process can result in unnecessary delinquencies or loan defaults. An effective loan program includes:

- written statement of institutional policies regarding the loan program
- clear-cut division of responsibilities among administrative offices
- timely enrollment reports to the financial aid office to show which students did not re-enroll, so that such students can be contacted immediately
- procedural guidelines for making and collecting loans
- effective counseling with students about loan obligations
- orderly maintenance of records and outstanding loans
- a calendar itemizing loan repayments

Informing students: One of the most important factors in an institution's ability to collect loans is the borrower's understanding that the money he or she receives is a loan which must be repaid. This is particularly important when an aid "package" includes both grant and loan funds. Each time a loan commitment is made (including adjustments and agreements on loan repayment schedules), institutional personnel should review loan obligations with the borrower. Each borrower should sign a written statement of rights and responsibilities as part of the promissory note to be kept with other student records.

Loan disbursement takes many forms and varies greatly among institutions. The recommended procedure is to document receipt of funds by issuing a check that requires endorsement by the borrower, rather than issuing cash or crediting a student's account directly. Once a loan has been granted, individual ledgers are maintained to record outstanding balances or adjustments for each borrower.

Good management practice dictates that there be a clear *division of responsibilities* between staff responsible for granting loans and those responsible for disbursement and collection. If a division among personnel is not possible, internal controls need to be established to separate these functions.

Exit interviews should be required for every student with a loan. Such interviews, already required for NDSL, Health Profession Loans, and Nursing Student Loans, provide an opportunity to discuss with the borrower his or her financial

responsibilities and to obtain updated information that may help the institution collect the loan.

Collection and followup: During the grace period that ensues after a student leaves the institution, good practice suggests that the borrower be reminded of the first billing date. Later, if payments are not made on schedule, a series of past-due notices and followups is required. In all such correspondence, the institution must make clear to the borrower its intention of pursuing collection of the loan in a thorough and businesslike manner.

PROPER AUDITING

Auditing is the basis for an institution's ability to evaluate the performance of its financial aid program. Financial aid audits assure fiduciary integrity of transactions and provide an effective means of program review.

The federal government requires that federal student aid programs be audited. HEW Audit Guides, which explain how federal audits are to be conducted, help the institution anticipate and adjust to federal requirements. They can also serve as planning and review documents for management.

A comprehensive annual audit may be best for institutions with large enrollments or large amounts of financial aid. Such an audit would show whether financial reports have been presented fairly, whether financial operations are being conducted properly, and whether funds are being adequately safeguarded. It would assess other aspects of effective management as well, including whether financial aid resources are being used economically and efficiently, whether institutional objectives are being accomplished, and whether applicable regulations and policies are being followed.

Federal requirements allow audits to be conducted by independent certified public accountants, by licensed public accountants (licensed on or before December 31, 1970), or, under certain terms, by the institution's internal audit staff. State auditors are an option for many public institutions. Use of an internal auditor can offer advantages for institutional management, for instance, by helping identify potential problems and recommending action to improve or correct management procedures.

Figure 12

Due Diligence

Federal loan programs require an institution to use due diligence in the collection of amounts due from borrowers. Due diligence is the attention and care required of an institution and is characterized by consistent, forceful, and energetic procedures in loan collection.

Loan programs usually require a legally acceptable promissory note, advance notice of the date and amount of repayment, and consistent follow-up on loan obligations. Collection procedures include holding up registration, transcripts, or graduation; use of collection agencies; and litigation.

The NDSL program imposes the following five requirements:

- **Provide to each borrower, not later than the time he or she signs the promissory note, full disclosure of the borrower's rights and obligations;**
- **Conduct an exit interview with each borrower before he or she leaves the institution. At that time, provide the borrower with a copy of the repayment schedule specifying the total amount of the loan and the due dates and amounts of installments. The borrower must sign a copy of the repayment schedule, and that copy must be placed in the borrower's file;**
- **If the borrower leaves the institution without notice, the institution should mail the borrower a copy of the note and two copies of the repayment schedule and request the borrower to sign and return one of the copies of the repayment schedule;**
- **Maintain contact with the borrower after he or she leaves the institution to facilitate billing and to keep the borrower informed of all changes in the programs affecting his or her rights or obligations;**
- **Respond promptly to written inquiries and other communications from the borrower and any endorser.**

V. Toward Effective Campus Management of Student Aid

Proper presidential oversight of student aid helps to ensure that the programs operate effectively, support overall institutional objectives, and comply fully with regulations and institutional policies. Above all, competent management of student aid helps to assure that available funds—from state and federal government, from institutional and private sources—will assist students in pursuing postsecondary education to the greatest extent possible.

How can presidents and other senior administrators assess the quality of their current aid operations? In view of the rapid growth of types of financial aid and number of programs, it would be wise for every president or chancellor to use this Guide, with other resources, as a basis for a top-management review of existing financial aid programs. Suggestions have been offered regarding possible participants in such an analysis, types of data to obtain, and questions to be considered. The Checklist of Major Policy Questions (pp. vii and viii) may be useful as a starting point for review.

This Guide and the companion manual, *Management of Student Aid*, distributed by the National Association of College and University Business Officers, are resources for gaining a broad view of management principles. Publications of the National Association of Student Financial Aid Administrators and of the College Board are also pertinent. Crucial to the application of these materials to particular institutional circumstances, however, is the experience and expertise of many campus officers — in financial aid, in business affairs, in student affairs, and other offices.

To assist colleges and universities in strengthening their aid programs by a voluntary, self-regulating process, the American Council on Education and related associations will provide additional services on financial aid management during the next year:

1. ACE's Office on Self-Regulation Initiatives will offer an on-campus consultant service, providing names of persons qualified to conduct an external review of current management practices.

2. Under a Carnegie Corporation grant to ACE, several fact sheets will be prepared and distributed to institutions, outlining policy guidance on specific aspects of aid management.

3. The Financial Aid Training Program of the National Association of Student Financial Aid Administrators will hold a series of ten regional workshops for presidents and senior administrators in March 1980.

Through these and other measures, national associations have demonstrated their belief that the most effective means of strengthening the management of student financial aid is by voluntary action. Such manuals, guides, and workshops help summarize and disseminate information on effective administrative practices. Prompt campus review and improvement of current practices represent the essential next step.

AMERICAN COUNCIL ON EDUCATION

J. W. Peltason, President

The American Council on Education, founded in 1918 and composed of institutions of higher education and national and regional associations, is the nation's major coordinating body for postsecondary education. Through voluntary and cooperative action, the Council provides comprehensive leadership for improving educational policies, standards, procedures, and services.

The Office of Self-Regulation Initiatives, a program of the American Council on Education, seeks to promote increased awareness and use of voluntary, self-regulating approaches to problems affecting higher education. The Office works closely with an Advisory Committee on Self-Regulation and with other education associations in identifying issues on which self-regulation is needed and in formulating responses to those issues.